AGRICULTURAL ADJUSTMENT ACT OF 1937

EXPLANATION OF BILL

The draft (dated May 17, 1937) of the proposed Agricultural Adjustment Act of 1937 has been prepared by representatives of the committee selected by Secretary Wallace's Farm Conference of February 8th and 9th. The draft carries out the recommendations made by that Conference. It has been prepared by counsel and taken form after numerous conferences of the committee with leaders of the various farm organizations. The Department of Agriculture has made available such economic data and legal and other services as the committee has requested, including the services of Robert H. Shields of the Office of the Solicitor of the Department.

This explanation of the draft has been prepared by Donald Kirkpatrick, of Chicago, Illinois, General Counsel, and Frederic P. Lee, of Washington, D.C., Special Counsel of the American Farm Bureau Federation.

Objectives. -- The purpose of the bill is to maintain for farmers parity prices for crops of cotton, wheat, corn, rice and tobacco, and to that end to keep the total supply, i.e., carry over plus current production at substantially a normal supply level. To this principal objective of parity prices the bill adds two further objectives: First, the maintenance of an ever-normal granary, but without interference with parity prices; and, second, conservation of soil resources and prevention of waste of soil fertility through controlling production of excessive surpluses that interfere with the maintenance of parity prices.

Contracts with Farmers. -- As the primary administrative mechanism, the Secretary of Agriculture, who is to administer the Act, is authorized to prepare adjustment contracts and to tender them to farmers engaged primarily in producing one or more of the five commodities for market. The first contracts offered are to be for a three year period beginning with crops harvested in 1938. A separate contract is required for each farming unit but covers all major agricultural commodities produced on the farm.

The cooperator who signs a contract will continue to receive under existing law soil building payments as well as conserving (diversion) payments, on commodities other than the five major commodities. In lieu of conservation (diversion) payments on these five commodities, the cooperator will receive parity payments under the proposed legislation. In addition he will be eligible for surplus reserve loans on wheat or corn (and at certain supply levels on cotton and rice) secured solely by the commodity stored in accordance with Department requirements. These loans are administered by a Surplus Reserve Loan Corporation to be established as an agency within the Department.

The parity payments are coordinated with supply in such manner that, at normal supply levels for the commodity, the market price, together with the parity payment, will give the farmer substantially a parity price for the aggregate normal yield of his acreage devoted to the production of the commodity. The bill provides no payments for diversion of acreage. It is not based on any scarcity philosophy. Any diversion of acreage required in order to prevent the accumulation of surpluses in excess of an ever-normal granary

is undertaken by the cooperator without special compensation and in return for the benefits of a stabilized income afforded him by the Act.

It is the conviction of the farm groups that a stabilized market for corn, wheat, and rice will in large measure eliminate violent fluctuations in the costs of feed stuffs to the dairy and livestock farmers, as well as eliminate the violent fluctuations and vicious cycles in livestock and dairy production, stabilize the price for feed products for livestock, and substantially assist such farmers in obtaining a parity income.

In return for the benefits under his contract the cooperator is obligated to divert acreage from production of any major agricultural commodity if the total supply is in excess of the normal supply level, and also in case the supply is greatly in excess of normal, to restrain from marketing his production to the extent necessary to restore to normal the amount of the commodity available for market.

The non-cooperator who does not sign a contract tendered by the Secretary, but is engaged primarily in producing for market any one of the five major agricultural commodities, is not entitled to the parity payments or surplus reserve loans, or to any soil building or conserving (diversion) payments under existing law.

Unfair Agricultural Practices. -- While not required to divert acreage from production of a commodity, the non-cooperator as well as the cooperator, is required under penalties to refrain from marketing his production in excess of the quota covering his share of which the Secretary of Agriculture, under particular circumstances, finds it appropriate to exercise the various control powers vested in him. According to tentative estimates supplied by the Department of Agriculture at the request of the American Farm Bureau Federation, the probable average annual cost of the parity payments under the proposed legislation will be less than 400 million dollars and will reach a "probable minimum" of but 287 million dollars. A large part of this cost will be met by the discontinuance of the conserving (diversion) payments on cotton, corn, wheat, tobacco, and rice under the Soil Conservation Act. These have heretofore been paid from a portion of the 500 million dollar appropriation authorized under that Act. It is expected that the sum heretofore available for conserving (diversion) payments on these commodities, together with the portion of the tariff revenues now allocated to agriculture by section 32 of the Act of August 24, 1935, and not required for special crops, will care for all parity payments under the proposed legislation without any increase in the authorized appropriations for AAA programs.

Bases. -- There are to be established a normal yield and a soil depleting base acreage for each farm devoted primarily to the production for market (including feeding of livestock for market or of livestock whose products are to be marketed) of any of the five commodities. The national base acreage for the commodity will be an acreage whose normal yield will equal the supply required to be produced annually for domestic consumption and exports, adjusted so as to maintain surpluses for an ever-normal granary and so as to take into account acreage formerly but not currently required for exports. This national base is allotted by the Secretary to States and

to counties or other local administrative areas on the basis of acreage devoted to production of the commodity during the preceding 10 years with adjustments for abnormal weather conditions and acreage trends. These local allotments are equitably adjusted among individual farms according to tillable acres, type of soil, topography, and production facilities.

"History" is not the basis for either the national base acreage or the individual farm base but only for the allotment of the national base acreage among the local administrative areas.

The farm base acreage serves at all times to limit the acreage that may be used for producing the commodity and also as a yardstick for acreage diversion whenever required. The normal yield of the individual farm base acreage constitutes the yardstick for marketing quotas. The normal yield is the average yield per acre during the preceding 10 years. Normal yields are computed at intervals when new programs are undertaken to care for interim development of new producing areas.

Farm base acreages, normal yields, and marketing quotas are required to be published within the county and filed for public inspection. Any farmer dissatisfied may obtain a review before an independent committee of farmers. Further review may, where necessary, be had before a reviewing officer designated by the Secretary of Agriculture and before the courts. Any increase in farm base acreage or marketing quota as a result of the review proceedings is to be made by reducing pro rata all other base acreages or marketing quotas within the same local administrative area.

Observance of acreage diversion and quota requirements are expected to be policed by the local associations of producers just as under similar programs heretofore conducted by the Department.

Example. -- An example of the application of the fundamental features of the proposed legislation to some one of the major agricultural commodities, such as wheat, may be helpful in an understanding of operations under the bill.

The bill establishes a normal supply level for wheat. That level is a normal year's domestic consumption (which includes seeding requirements) of 650 million bushels plus 20% thereof as an allowance for exports and an ever-normal granary, a total of about 780 million bushels.

If at the beginning of a marketing year for wheat the total supply, i.e., the carry over plus the estimated current production, is below this normal supply level, a loan of 85% of the parity price of wheat at the beginning of the marketing year is available through the remainder of the marketing year. This loan is expected to stabilize the price of wheat at not less than the loan rate. In addition promptly after the close of the marketing year on June 30th there will be made to cooperators who have fulfilled their contract obligations, a parity payment of 15% of the parity price on the aggregate normal yield of the base acreage for wheat not required to be diverted from production and actually devoted to such production. This will afford the farmer substantially a parity price for his production without restricting his freedom to sell his production at above the market level if by reason of the quality of his product or other advantageous factors his wheat commands a premium.

In basing payments on the aggregate normal yield, irrespective of actual production in the particular year, the bill provides an insurance feature of value for years in which the actual production may be below normal because of adverse weather or other conditions.

In order to minimize costs and not have the parity payments result in a total return in excess of parity, it is provided that where the applicable parity payment specified in Schedule A exceeds the difference between the current average farm price and parity price during such year, then the payments to the farmer shall not exceed this difference. This will in no wise deny the farmer the parity return but will serve to protect the public and the Government from payments that would be excessive.

If the total supply is in excess of a normal supply level, then the loan rate is decreased, diversion of acreage is required to bring the total supply back to the normal supply level, and the payment rate on wheat produced on the undiverted acreage is increased. However, under such circumstances the total return to the farmer gradually decreases from parity at the same time widening the spread between the cooperator and non-cooperator.

Whenever the total supply is in excess of the normal supply level two control features of the bill come into play. Under one of these the cooperator may be required to store and place under seal not to exceed 20% of his production. Wheat so stored, however, is eligible for surplus reserve loans. Under the second feature marketing quotas are established for the farms of both the cooperator and non-cooperator, if the excess of the total supply over the normal supply level is more than 20%, i.e., 936 million bushels. Penalties are imposed for marketing wheat in excess of quota.

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